Harlequin Enterprises Limited Annual Report 1976

BOARD OF DIRECTORS

RICHARD A. N. BONNYCASTLE
Chairman
Harlequin Enterprises Limited, Don Mills

JOHN T. BOON, C.B.E.
Chairman
Mills & Boon Limited, London

LAWRENCE L. BELL
Retired Partner
Richardson Securities of Canada, Toronto

LAWRENCE C. BONNYCASTLE
Vice-Chairman
Canadian Corporate Management Company Ltd., Toronto

ALAN W. BOON
Group Editorial Director (Fiction)
Mills & Boon Limited, London

SIR JOHN BROWN, C.B.E.
Publisher
Oxford University Press, London

WILLIAM A. DIMMA
President
Torstar Corporation, Toronto

GEORGE R. GARDINER
President
Gardiner, Watson Limited, Toronto

W. LAWRENCE HEISEY
President
Harlequin Enterprises Limited, Don Mills

BELAND H. HONDERICH
Chairman
Torstar Corporation, Toronto

JOSEPH G. KELNBERGER, JR.
Senior Vice-President
Bristol-Myers Products, New York

DANIEL SPRAGUE
Chairman
James B. Carter Limited, Winnipeg

OFFICERS

W. LAWRENCE HEISEY
President

WILLIAM F. WILLSON
Vice-President and Secretary

RICHARD H. BELLRINGER
Vice-President

MARTIN A. REAUME
Treasurer

JOHN W. PETRIE
Controller

CORPORATE INFORMATION

CORPORATE OFFICE
240 Duncan Mill Road
Don Mills, Ontario M3B 1Z4
Telephone Number (416) 445-5860

AUDITORS
Clarkson, Gordon & Co., Toronto

EXCHANGE LISTING
The Toronto Stock Exchange

REGISTRAR AND TRANSFER AGENT
Montreal Trust Company, Toronto
Halifax, Montreal, Winnipeg,
Calgary, Vancouver

ANNUAL MEETING
10:00 a.m. May 26, 1977
Varley Room
Hotel Toronto
145 Richmond Street West
Toronto

Highlights ($000)

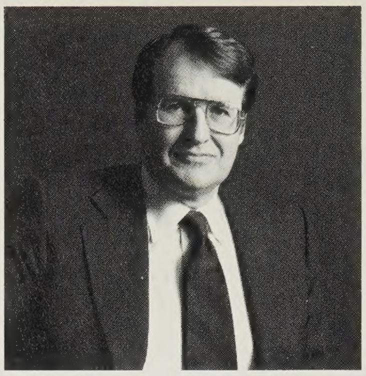
REVENUES	% Increase	**1976**	1975
Publishing	26%	**$44,102**	$35,080
Learning materials	1%	**$ 8,289**	$ 8,169
TOTAL REVENUES	21%	**$52,391**	$43,249
NET EARNINGS	20%	**$ 5,323**	$ 4,418
Basic Earnings Per Share	15%	**$ 1.01**	$ .88
Fully Diluted Earnings Per Share	19%	**$ 1.00**	$ .84
Equity Per Share	26%	**$ 3.68**	$ 2.92

Harlequin is the world's leading publisher of romantic fiction, a special kind of literature that provides entertainment and relaxation for millions of women throughout the world. In 1976, more than 78 million books bearing the Company's imprint were bought by readers of the English language, while millions more were purchased in other languages.

Harlequin is a rapidly growing international organization, with excellent opportunities for further development of its present markets and for expansion into new markets. In addition to publishing romantic fiction, Harlequin publishes general and educational non-fiction through its British subsidiary, Mills & Boon Limited. In Canada, Harlequin distributes learning materials and books and publishes Canadian educational products through Scholar's Choice Limited.

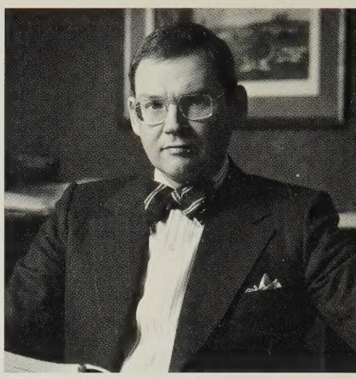
Future developments will include continued growth in fiction publishing in North America and overseas, additional publishing enterprises in other languages, and diversification into related product areas.

Report to Shareholders



RICHARD A. N. BONNYCASTLE
Chairman of the Board
Harlequin Enterprises Limited

W. LAWRENCE HEISEY
President
Harlequin Enterprises Limited



WILLIAM F. WILLSON
Vice-President and Secretary
Harlequin Enterprises Limited

Harlequin's sales and earnings in 1976 posted records for the sixth consecutive year. Consolidated revenues of $52,391,000 were ahead by 21%, while net earnings rose by 20% to $5,323,000. Fully diluted earnings per share increased to $1.00, up from $.84 in the prior year.

Earnings were again depressed by negative exchange adjustments. Exchange rate changes reduced the value of net assets held abroad by $295,000, and this reduced net earnings in 1976 by 5%. In 1975 a similar adjustment reduced net earnings by 6%.

In November of 1976, your Board of Directors increased the semi-annual dividend from 12¢ to 13¢ per share. Total dividends in 1976, at 25¢ per share, amounted to 25% of the year's earnings.

During 1976, Harlequin Books undertook a number of steps to strengthen its position in North American markets. The Harlequin Distribution Center, a facility designed to handle all aspects of order fulfillment in the United States, was established in Buffalo, New York. A long-term printing contract for the supply of books in the United States was signed with Arcata Graphics, one of the leading paperback printers in that country. Books for the Canadian market will continue to be printed in Canada. A new three-year contract for sales representation in the United States was signed with Simon & Schuster Inc. on improved terms for Harlequin, effective 1 January 1977. The Harlequin Reader Service successfully launched *Romance Treasury,* a monthly hardcover anthology of Harlequin romances sold exclusively by direct mail.

The Harlequin overseas operations also continued to move ahead in 1976. A new line, *Jasmijn,* was launched in Holland, and a successful test of a new Mills & Boon romantic-fiction series was undertaken in England and Australia. In Britain, Mills & Boon consolidated its printing with one printer in an arrangement similar to those entered into by Harlequin Books in Canada and the United States.

In December, Harlequin purchased 50% of Cora Verlag, a subsidiary of Axel Springer Verlag A.G., West Germany's largest newspaper and magazine publisher. The purchase price was approximately $2,100,000. Cora Verlag has, for several years, been publishing German editions of romantic fiction under license from Mills & Boon. Under the new arrangement, Cora Verlag will continue to expand its romantic-fiction publishing program and will publish other paperback books with mass-market appeal.

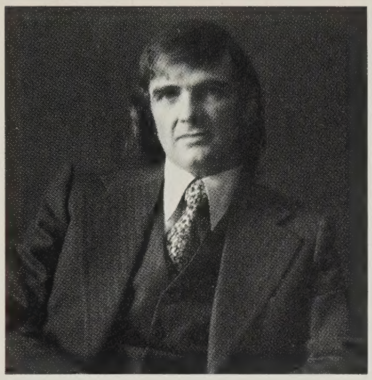
In order to move ahead more effectively in our program to publish in other languages, we have established an organization in Europe headed by John Rendall, who has been appointed Managing Director, Harlequin European Operations. Mr. Rendall previously was Managing Director of Mills & Boon Limited. Mr. Klaas Koome, Harlequin's Managing Director in Holland, reports to Mr. Rendall for both Holland and our new interest in Cora Verlag, Berlin. Mr. Christian Chalmin, who has joined the European team as Managing Director, Harlequin France, will be responsible to Mr. Rendall for the development of our French- language business.

Another development initiated in 1976 was Harlequin's first step into theatrical film production. *Leopard in the Snow,* a production under the Anglo-Canadian film treaty, began filming in late January of 1977 in the ski-resort area north of Toronto and, after four weeks of shooting, continued production in England. *Leopard in the Snow,* starring Keir Dullea, Susan Penhaligon, Kenneth More and Jeremy Kemp, is based on the Mills & Boon/Harlequin novel of the same name by Anne Mather. The film is produced by John Quested and is directed by Gerry O'Hara. We expect to release the film for international distribution in late 1977.

Since 1975, when the Canadian Authors Association reinstituted its national Literary Awards program, Harlequin has assisted in this worthwhile venture by funding the cost of the mementos and the cash awards. The Canadian Authors Association Literary Award program dates from the late 1930s when the CAA created the Governor-General's Awards that were eventually taken over by the Canada Council after some two decades.

The Awards, embodying $1,000 each and a handsomely designed silver medal, are given in four categories – though all four categories need

MARTIN A. REAUME
Treasurer
Harlequin Enterprises Limited



JOHN W. PETRIE
Controller
Harlequin Enterprises Limited

not provide winners every year. The categories are: fiction, non-fiction, drama, and poetry.

In 1976, there was no fiction award. The award for non-fiction went to John Mellor of Kitchener, Ontario for his book *Forgotten Heroes,* the story of the Canadian effort at Dieppe in 1942, published by Methuen. The poetry award went to Jim Green of the Northwest Territories for his book *North Book,* published by Blackfish Press. The drama award went to John Hirsch of Toronto for his adaptation into English of *The Dybbuk,* published by Peguis.

Harlequin's corporate objectives are to continue to increase the development of English-language markets for romantic fiction, to develop and expand publishing activities in other languages, and to acquire other businesses in related areas that will capitalize on the Company's publishing, marketing or distribution skills. Looking forward, we believe that the Company will achieve important steps on all of these fronts in 1977, and that we shall be able to sustain a satisfactory rate of growth. During the last five years we have increased our revenues from $8 million to $53 million, and our earnings from $0.5 million to $5.3 million. We have achieved important growth in all markets in which we operate, and we have begun the development of a dynamic international organization.

The success of Harlequin is due to the energy and dedication of our employees around the world. We are grateful for their enthusiastic response to the challenges of the Company's growth.

On behalf of the Board

Richard A. N. Bonnycastle

W. Lawrence Heisey

NET REVENUES ($000)

1969	**$5,344**
1970	**$7,719**
1971	**$7,978**
1972	**$15,277**
1973	**$20,358**
1974	**$30,983**
1975	**$43,249**
1976	**$52,391**

NET EARNINGS ($000)

1969	**$235**
1970	**$110**
1971	**$454**
1972	**$1,577**
1973	**$2,737**
1974	**$3,527**
1975	**$4,418**
1976	**$5,323**

FULLY DILUTED EARNINGS PER SHARE

1969	**$ .07**
1970	**$ .03**
1971	**$ .10**
1972	**$ .31**
1973	**$ .52**
1974	**$ .68**
1975	**$ .84**
1976	**$1.00**

EQUITY PER SHARE

1969	**$ .87**
1970	**$ .92**
1971	**$1.03**
1972	**$1.37**
1973	**$1.84**
1974	**$2.36**
1975	**$2.92**
1976	**$3.68**

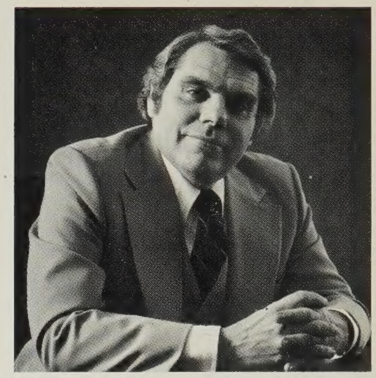
DIVIDENDS DECLARED ($000)

1972	**$114**
1973	**$414**
1974	**$991**
1975	**$1,227**
1976	**$1,316**

ROMANCE BOOKS SOLD (English Language)
Millions of Books–Net

1965	**6**
1966	**8**
1967	**12**
1968	**13**
1969	**17**
1970	**19**
1971	**25**
1972	**29**
1973	**42**
1974	**63**
1975	**72**
1976	**78**

Harlequin Books



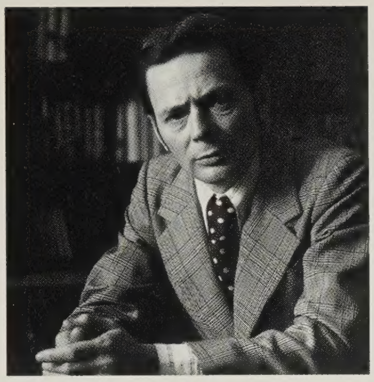
RICHARD H. BELLRINGER
Vice-President
Harlequin Enterprises Limited,
President, Harlequin Books

Harlequin Books is the Company's North American fiction publisher. This Division is the Company's most important contributor to both sales and earnings, and has great potential for future growth. Harlequin Books publishes and distributes romantic fiction for North American markets from the Division's headquarters in Don Mills, Ontario, as well as from operations in Stratford, Ontario; Hackensack, New Jersey; and Buffalo, New York.

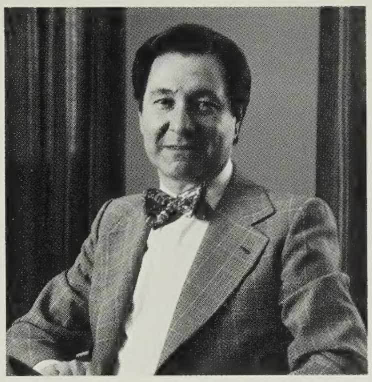
Harlequin Books publishes under two main imprints: *Harlequin Romances,* comprising eight new books each month (priced at 75¢ in 1976); and *Harlequin Presents,* an author-oriented series consisting of four new books each month (priced at 95¢ in 1976). In 1977, cover prices were increased to 95¢ and $1.25 respectively. At these prices Harlequin books continue to represent excellent reading value, substantially lower than the average cover price for mass-market paperbacks.

The continuing success of Harlequin Books in North America is due to a number of elements. The consistency and quality of editorial content is the major factor. The standardization of design, size, production and distribution all play an important role in achieving economies that generally are not available to most mass-market publishers.

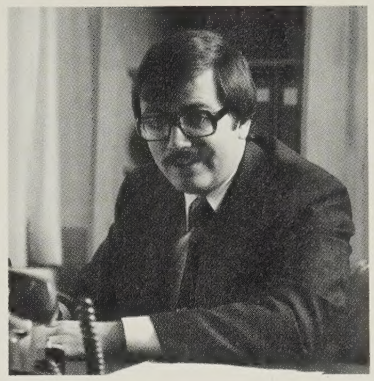
LOUIS KRUPAT
Vice-President
Finance & Administration
Harlequin Books



SAMUEL A. WHITFIELD
Vice-President
Director, Consumer Sales
Harlequin Books



FRED KERNER
Director, Publishing
Harlequin Books

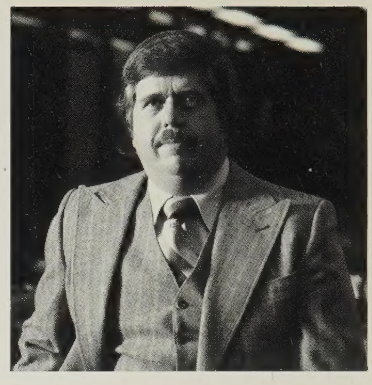


DAVID R. SANDERSON
Director, Sales/Marketing, Retail
Harlequin Books

During 1976, Harlequin Books took several major steps to improve its position in the North American marketplace and to achieve further operating efficiencies. It was realized early in 1976 that Harlequin Books would encounter capacity problems by continuing to produce its entire print run for the North American market in Canada. In 1976, a five-year printing contract was arranged with Arcata Graphics, one of the leading mass-market paperback printers in the United States. Arcata will print books in the United States for a majority of the U.S. market needs. Harlequin Books' Canadian printers will continue to print books in Canada for the Canadian market as well as for a portion of the U.S. requirement.

The Harlequin Distribution Center was established during 1976 in Buffalo, New York. Encompassing 100,000 square feet of modern warehouse facilities, the Harlequin Distribution Center is set up to handle all aspects of inventory management and order fulfillment. A similar operation being established on a smaller scale in Stratford, Ontario for the Canadian market will be operative by mid-1977.

JERRY GOLDMAN
Director, Distribution
Harlequin Books



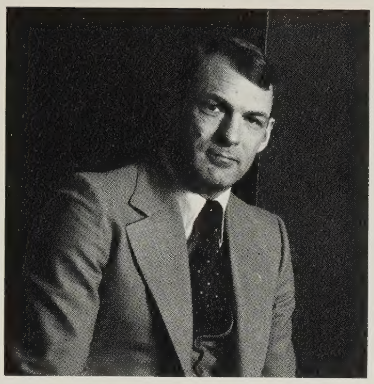
J. KENNETH McEACHRAN
Director, Finance
Harlequin Books

The Book Division's Sales/ Marketing team works in close liaison with two sales organizations to increase Harlequin's development of the North American market. Har-Nal Distributors Limited of Markham, Ontario (50% owned by Harlequin), represents Harlequin in Canada with one of the largest paperback book sales forces in the country. Sales representation in the United States has been handled by Simon & Schuster's Pocket Books Distribution Corp. for the last five years. During 1976, a new distribution contract was entered into with Pocket Books for the next three years on terms beneficial to Harlequin.

Within Harlequin Books, the Harlequin Reader Service plays an important role in fulfilling those consumer needs that are not directly served through regular book-trade channels. The Reader Service also publishes a series of hardcover "collector's" editions called *Romance Treasury.* Sold only by direct mail, each *Romance Treasury* volume contains three previously published novels chosen from the *Harlequin Romances* back list.

An important aspect of Harlequin Books' growth during the last six years has been the recruitment of qualified people. In 1970 the Division had six full-time employees. The personnel figure has now grown to over 400. To recruit and train employees under the demanding conditions of growth has been a major task for the Division. The success in employee development is reflected in the Division's great progress. Management is now in place at all levels to provide an important springboard for future development in North America.

WILLIAM T. WEBSTER
President
Scholar's Choice Limited



LEX DE BOER
Director, Marketing
Scholar's Choice Limited

BRUCE T. WILLS
Controller
Scholar's Choice Limited

LEARNING MATERIALS DIVISION

The Learning Materials Division is a major supplier of learning and resource materials to the Canadian education market. During 1976, all activities of the Division were consolidated within Scholar's Choice Limited.

Scholar's Choice is a national distributor supplying more than 25,000 items including learning materials, supplies and equipment, filmstrips and library books to schools and teachers in every province.

Based in Stratford, Ontario, the company markets its products through an imaginative catalogue program complemented by well-trained sales personnel located strategically throughout Canada. A Personal Shopping Centre has been established in Vancouver, where teachers and librarians from the expanding Vancouver area can select and purchase their materials in person.

Scholar's Choice is continuing to develop its Canadian publishing program, with major emphasis on inexpensive educational materials in the major subject areas of Canadian history, Canadian geography, mathematics and language arts.

Experienced Canadian classroom teachers are authors or editors for each new product, ensuring that all materials are relevant for today's learning requirements. More than 50 authors and editors throughout Canada are under contract to Scholar's Choice at present.

During 1976, seventeen new or revised products were published. Included was a major revision and metrication of the highly successful *Check and Double Check* math-workbook program that has seen more than one million copies sold since it was introduced in 1962.

Harlequin Overseas Group

JOHN T. BOON
Chairman
Harlequin Overseas

ALAN W. BOON
Group Editorial Director (Fiction)
Mills & Boon, London

Harlequin has established an Overseas Executive Board to manage the Company's affairs outside North America. The Board is responsible for the Mills & Boon operations in Britain and Australia, for the Harlequin publishing companies in Europe and for further development of publishing activities in both English and other languages.

MILLS & BOON LIMITED

Mills & Boon Limited, London, publishes approximately fifteen new romantic-fiction titles in hardcover each month. This begins the process that leads to the publication of best-selling paperback series by Harlequin companies in Britain, Australia and New Zealand, West Germany, The Netherlands, Canada and United States.

Mills & Boon Limited, founded in 1908, published its first romance in 1909. Sales of North American rights to Harlequin began in 1957, and in 1971 the firm joined the Harlequin group of companies. For many years Mills & Boon has been the world's leading publisher of romantic fiction, with exports under the Mills & Boon imprint to all major markets outside North America and sales of translation rights to publishers in the world's main languages. In 1973, Mills & Boon Pty. Limited was established in Sydney, Australia. The firm has been very successful in increasing the distribution of Mills & Boon books in Australia and New Zealand.

During 1976, Mills & Boon successfully tested a new series of romance stories with medical backgrounds. The firm also launched the *Mills & Boon Classics* series, containing reprints of popular romances published some years ago. In the spring of 1977, Mills & Boon will launch a new fiction series of historical romances.

Mills & Boon publishes general and educational books as well. In 1976, the *Owlet* imprint was created. The *Quizzer* series of twelve informational paperbacks for children and *Picture Panorama of British History* were among the *Owlet* books published in 1976.

General books published for the adult market in 1976 include *Embroidery South Africa* by Mary Gostelow, and

JOHN RENDALL
Managing Director
Harlequin Europe

KLAAS KOOME
Managing Director
Harlequin Holland

CHRISTIAN CHALMIN
Managing Director
Harlequin France

LES WARD
Managing Director
Mills & Boon Pty. Limited, Australia

Enjoy Cooking with Marguerite Patten, a leading United Kingdom cookery author.

Educational titles included two important science books: *Understanding Biology* by Archer, Grenville, Jago and Johnson; and *Explorations for Young Scientists* by Tricker.

HARLEQUIN EUROPEAN OPERATIONS

Harlequin's plans include the development, either directly or by joint venture, of publishing operations in the world's major languages. A new division of the Company has been established to concentrate on the expansion of the Company's business in languages other than English. Harlequin's European Operations now encompass publishing companies in The Netherlands, West Germany and France.

In 1975, Harlequin Holland successfully launched its first romance series, *Bouquet Reeks,* in the Dutch language. Based on translations of Mills & Boon romances and published in paperback format, the *Bouquet Reeks* series was an instant success. In September of 1976, Harlequin Holland began publishing *Jasmijn,* another romance series in a less-expensive format. The *Jasmijn* launch, backed by an imaginative consumer and trade promotional campaign, was well received in all markets.

In late 1976, Harlequin purchased 50% of Cora Verlag, a West German company that has been publishing Mills & Boon romances in the German language for several years. Cora Verlag has been very successful in the romantic-fiction category, taking the lead in design, promotion and editorial quality in its markets. During 1976 Cora Verlag successfully introduced the new *Bianca* series of romances set in medical backgrounds. This became the third line of romantic novels, the other two being *Julia* and *Romana.*

Harlequin France was established in early 1977. Based in Paris, the new operation will publish French translations of Mills & Boon romances. French-language markets in Canada will be developed by this new operation as well. Studies are now under way to determine the most suitable formats, cover designs and editorial qualities for the French markets. The new program in French will be launched in early 1978.

Harlequin Enterprises Limited
(Incorporated under the laws of Canada)

Consolidated Balance Sheet (thousands of dollars)

December 31, 1976 *(with comparative figures at December 31, 1975)*

ASSETS	**1976**	1975
CURRENT ASSETS:		
Cash	**$ 508**	$ 722
Short-term investments, at cost (which approximates market)	**8,779**	3,486
Accounts receivable (note 3)	**5,513**	6,289
Inventories, at the lower of cost and net realizable value	**5,554**	6,632
Prepaid expenses and other current assets (note 4)	**3,251**	2,043
Total current assets	**23,605**	19,172
FIXED ASSETS, at cost (note 5)	**1,837**	1,498
Less accumulated depreciation	**820**	645
Total fixed assets	**1,017**	853
GOODWILL (note 1)	**5,750**	3,704
	$30,372	$23,729

On behalf of the Board:

Director

Director

(See accompanying notes to consolidated financial statements)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1976	1975
CURRENT LIABILITIES:		
Bank indebtedness	$ 368	$ 1,002
Accounts payable and accrued charges	7,394	4,058
Dividends payable	684	632
Income taxes payable	2,040	2,685
Total current liabilities	10,486	8,377
Deferred liability (note 2)	527	
SHAREHOLDERS' EQUITY:		
Capital stock (note 6)		
Authorized:		
9,000,000 common shares without nominal or par value		
Issued:		
5,264,208 common shares	4,161	4,161
Retained earnings	15,198	11,191
Total shareholders' equity	19,359	15,352
	$30,372	$23,729

Auditors' Report

To the Shareholders of
Harlequin Enterprises Limited:

We have examined the consolidated balance sheet of Harlequin Enterprises Limited as at December 31, 1976 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied in all material respects on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants

Toronto, Canada
February 18, 1977

Consolidated Statement of Earnings and Retained Earnings (thousands of dollars)

for the year ended December 31, 1976 *(with comparative figures for 1975)*

EARNINGS	1976	1975
GROSS INCOME:		
Publishing (net of returns)	**$44,102**	$35,080
Learning materials	**8,289**	8,169
	$52,391	$43,249
EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING:	**$10,119**	$ 9,535
Deduct (add):		
Exchange adjustment (note 1)	**295**	296
Depreciation	**203**	180
Amortization of goodwill (note 1)	**39**	
Interest and other income	**(460)**	(150)
EARNINGS BEFORE INCOME TAXES	**10,042**	9,209
Income taxes	**4,719**	4,791
NET EARNINGS FOR THE YEAR	**$ 5,323**	$ 4,418
EARNINGS PER SHARE (note 7)		
Basic	**$1.01**	$ .88
Fully diluted	**$1.00**	$ .84

RETAINED EARNINGS

RETAINED EARNINGS, BEGINNING OF YEAR	**$11,191**	$ 7,999
NET EARNINGS FOR THE YEAR	**5,323**	4,418
	16,514	12,417
DIVIDENDS DECLARED (1976–$0.25; 1975–$0.24)	**1,316**	1,226
RETAINED EARNINGS, END OF YEAR	**$15,198**	$11,191

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Changes in Financial Position (thousands of dollars)

for the year ended December 31, 1976 *(with comparative figures for 1975)*

	1976	1975
SOURCE OF FUNDS:		
Net earnings for the year	**$ 5,323**	$ 4,418
Add –		
Depreciation	**203**	180
Amortization of goodwill	**39**	
Funds from operations	**5,565**	4,598
Common shares issued		495
Total funds provided	**5,565**	5,093
APPLICATION OF FUNDS:		
Cost of investment in joint venture (excluding current assets)	**2,085**	
Less portion of purchase price represented by a deferred liability (note 2)	**527**	
	1,558	
Dividends	**1,316**	1,226
Fixed assets	**367**	316
Total funds applied	**3,241**	1,542
INCREASE IN WORKING CAPITAL	**2,324**	3,551
WORKING CAPITAL, BEGINNING OF YEAR	**10,795**	7,244
WORKING CAPITAL, END OF YEAR	**$13,119**	$10,795
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase (decrease) in current assets –		
Cash and short-term investments net of bank indebtedness	**$ 5,713**	$ (212)
Accounts receivable	**(776)**	1,428
Inventories	**(1,078)**	2,323
Prepaid expenses and other current assets	**1,208**	430
	5,067	3,969
Increase (decrease) in current liabilities –		
Accounts payable and accrued charges	**3,336**	806
Dividends payable	**52**	(29)
Income taxes payable	**(645)**	(359)
	2,743	418
INCREASE IN WORKING CAPITAL	**$ 2,324**	$ 3,551

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements December 31, 1976

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation–

The accompanying consolidated financial statements consolidate the accounts of Harlequin Enterprises Limited and its subsidiaries, all of which are wholly owned. In addition, the Company includes its pro rata share of the assets, liabilities, income and expenses of the investment in the joint venture referred to in note 2. Its principal subsidiaries are:

Mills & Boon Limited – Britain
Mills & Boon Pty. Limited – Australia
Harlequin Enterprise S.A. – Switzerland
Harlequin Enterprises B.V. – The Netherlands
Harlequin Enterprises GmbH – West Germany
Scholar's Choice Limited – Canada
Harlequin Books Incorporated – U.S.A.

All acquisitions have been accounted for using the purchase method of accounting with the Company's share of earnings being included from dates of acquisition.

(b) Exchange translation–

The financial statements of the foreign subsidiaries have been translated to Canadian dollars as follows: current assets and liabilities at exchange rates prevailing at December 31; fixed assets, depreciation and deferred liability at exchange rates prevailing at date of acquisition; income and expenses (excluding depreciation) at average rates during the period. The 1976 exchange adjustment, $295,000 (1975 – $296,000), resulting from such translation practices has been charged against consolidated earnings.

(c) Goodwill–

Goodwill represents the excess of the purchase price of investments over the Company's interest in the fair value of the net assets acquired. Of this amount, $3,704,000 represents goodwill with respect to investments acquired before December 31, 1973 and for which the Company has made no provision for amortization since in the opinion of management there has been no reduction in value. The balance, $2,046,000, representing goodwill with respect to an investment in a joint venture made during 1976, is being amortized over forty years as required under generally accepted accounting principles adopted in Canada subsequent to 1973.

(d) Provision for book returns–

For accounting purposes, the companies follow the practice of making a provision for book returns determined by reference to past experience. For tax purposes, the companies are not permitted to deduct the provision until the year that the books are actually returned; the amount of tax thus prepaid is carried on the balance sheet under "prepaid expenses and other current assets" (note 4).

(e) Provision for taxes–

The Company has provided for all taxes which it is estimated will be payable on future remittance of earnings from operations outside Canada.

2. INVESTMENT IN JOINT VENTURE

Effective April 1, 1976, the Company acquired a 50% interest in a joint venture in Germany. The purchase price is payable as follows:

	Deutschemark	Dollars
Payable January 7, 1977	1,310,000	560,000
Payable April 1, 1977	2,397,000	1,023,000
Balance payable April 1, 1978 with interest at 6%	1,232,000	527,000
	4,939,000	2,110,000

The acquisition equation of this investment which has been accounted for as a purchase may be summarized as follows:

Interest in book value of net current assets acquired which equals fair value	$ 25,000
Excess of cost of investment over interest in fair value of net assets	2,085,000
Cost	$2,110,000

3. ACCOUNTS RECEIVABLE

The major items in accounts receivable at December 31 are as follows:

	1976	1975
Due from customers	$ 9,573,000	$ 8,672,000
Other receivables	312,000	474,000
	9,885,000	9,146,000
Less provision for returns	4,372,000	2,857,000
Net receivable	$ 5,513,000	$ 6,289,000

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets include prepaid income taxes of $2,062,000 ($1,387,000 in 1975) relating to provisions made for accounting purposes that have not yet become deductible for tax purposes.

5. FIXED ASSETS

The major categories of fixed assets at December 31, 1976 are as follows:

	Cost	Accumulated depreciation	Rates
Buildings	$ 208,000	$ 33,000	5%
Furniture, machinery & equipment	1,029,000	570,000	15-20%
Vehicles	189,000	68,000	25-30%
Leasehold improvements	325,000	149,000	
	1,751,000	820,000	
Land	86,000	–	
	$1,837,000	$ 820,000	

Straight-line depreciation is written on leasehold improvements over the terms of the leases, and the diminishing balance method is applied to the other depreciable assets at the rates shown above.

6. CAPITAL STOCK

At December 31, 1976, there were options to employees outstanding covering 42,900 shares (including 15,900 to officers) at prices ranging from $3.60 to $5.45 per share. Subsequent to the year-end, additional options for 15,000 common shares were granted to employees at $13.99 per share.

7. EARNINGS PER SHARE

Basic earnings per share have been computed on the basis of the weighted average number of shares outstanding during each year after giving retroactive effect to the stock split in 1975. Fully diluted earnings per share reflect the effect on earnings per share for 1975 and 1976 which would have resulted if all of the shares issued during 1975, as well as the shares which were subject to employee stock options, had been issued at the beginning of the applicable year, the funds derived therefrom being assumed to produce an annual return of 9% (10% in 1975) before applicable income tax.

8. LEASE COMMITMENTS

The companies are committed to annual rentals of approximately $531,000 for each of the next five years.

9. REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration ($9,000 of which was to the directors, as such) charged to consolidated earnings for the year ended December 31, 1976 in respect of ten directors (three of whom were also officers), and three other officers of the Company, was as follows:

By Harlequin Enterprises Limited	$549,000
By Mills & Boon Limited	94,000
	$643,000

10. ANTI-INFLATION PROGRAM

Under the federal government's Anti-Inflation Program (presently scheduled to be in force until December 31, 1978) the Company is subject to mandatory compliance with legislation that controls prices, profit margins, employee compensation and shareholder dividends. Management is of the opinion that the Company is in compliance with the requirements of the anti-inflation legislation. Dividends to the Company's common shareholders during the year ending October 13, 1977 may not exceed, without prior approval, $.26 per share.

CORPORATE MANAGEMENT
HARLEQUIN ENTERPRISES LIMITED

W. L. HEISEY
President

W. F. WILLSON
Vice-President, Finance & Secretary

M. A. REAUME
Treasurer

J. W. PETRIE
Controller

Divisional Management

HARLEQUIN BOOKS

R. H. BELLRINGER
President

S. A. WHITFIELD
Vice-President
Consumer Sales

L. KRUPAT
Vice-President
Finance & Administration

J. GOLDMAN
Director, Distribution

F. KERNER
Director, Publishing

J. K. McEACHRAN
Director, Finance

D. R. SANDERSON
Director, Marketing

HAR-NAL DISTRIBUTORS (50% owned)

B. C. KASTA
President

LEARNING MATERIALS DIVISION

W. T. WEBSTER
President

R. A. DE BOER
Director, Marketing

B. T. WILLS
Controller

HARLEQUIN OVERSEAS

J. T. BOON
Chairman

MILLS & BOON, LONDON

A. W. BOON
Group Editorial Director
(Fiction)

H. JEEVES
Director, Fiction

A. T. McKAY
Director, Publishing

B. J. C. ROGERS
Director, Finance

HARLEQUIN EUROPE

J. RENDALL
Managing Director

HARLEQUIN HOLLAND

K. KOOME
Managing Director

CORA VERLAG KG (50% owned)

K. KOOME
Joint Managing Director

H. SOMMER
Joint Managing Director

HARLEQUIN FRANCE

C. CHALMIN
Managing Director

Eight-Year Operating History

OPERATING RESULTS ($000)	**1976**	1975	1974	1973	1972	1971	1970	1969
Net revenues								
Publishing	**$44,102**	$35,080	$24,781	$16,417	$10,959	$3,950	$2,575	$2,297
Learning materials	**8,289**	8,169	6,202	3,941	4,318	4,028	5,144	3,047
Total net revenues	**$52,391**	$43,249	$30,983	$20,358	$15,277	$7,978	$7,719	$5,344
Net earnings	**$ 5,323**	$ 4,418	$ 3,527	$ 2,737	$ 1,577	$ 454	$ 110	$ 235

FINANCIAL POSITION ($000)								
Current assets	**$23,605**	$19,172	$14,288	$ 9,941	$ 6,132	$6,151	$3,631	$3,919
Current liabilities	**10,486**	8,377	7,043	5,061	3,396	3,679	2,098	2,139
Working capital	**13,119**	10,795	7,245	4,880	2,736	2,472	1,533	1,780
Net fixed assets	**1,017**	853	716	507	201	211	229	244
Other assets	**5,750**	3,704	3,704	3,741	3,867	3,933	2,152	1,486
Deferred liability	**527**	–	–	–	–	2,275	27	28
Shareholders' equity	**19,359**	15,352	11,665	9,128	6,804	4,341	3,887	3,482

FINANCIAL RATIOS								
Net earnings on net revenues	**10.2%**	10.2%	11.4%	13.4%	10.3%	5.7%	1.4%	4.4%
Net earnings on equity	**27.5%**	28.8%	30.2%	30.0%	23.2%	10.5%	2.8%	6.7%
Working capital ratio	**2.3:1**	2.3:1	2.0:1	2.0:1	1.8:1	1.7:1	1.7:1	1.8:1
Fully diluted earnings per share	**$ 1.00**	$ .84	$ .68	$ .52	$ .31	$ .10	$ .03	$ .07
Equity per share	**$ 3.68**	$ 2.92	$ 2.36	$ 1.84	$ 1.37	$ 1.03	$ .92	$ .87
Dividends per share	**$ .25**	$ .24	$ .20	$ .08	$ .03	–	–	–

OTHER DATA								
Shares Outstanding (000)	**5,264**	5,264	4,953	4,953	4,953	4,203	4,203	3,984
Number of employees	**584**	332	313	240	201	157	188	185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